

BEFORE THE
POSTAL REGULATORY COMMISSION
WASHINGTON, D.C. 20268-0001

MAIL PROCESSING NETWORK
RATIONALIZATION SERVICE CHANGES, 2012

Docket No. N2012-1

**RESPONSES OF UNITED STATES POSTAL SERVICE WITNESS MASSE
TO NPMHU INTERROGATORIES NPMHU/USPS-T2-1 THROUGH 9
(January 25, 2012)**

The United States Postal Service hereby provides the responses of witness Stephen Masse to the above-listed interrogatories of the National Postal Mail Handlers Union. Each interrogatory is stated verbatim and followed by the response.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

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RESPONSE OF UNITED STATES POSTAL SERVICE
WITNESS MASSE TO NPMHU INTERROGATORY

NPMHU/USPS-T2-1

Please identify the “numerous supplier contracts” (USPS-T-2, at 8) renegotiated by the USPS and the magnitude of savings for the USPS, if any, that were the result of those renegotiations.

RESPONSE:

In 2009, the Postal Service initiated the Rapid Renegotiation Initiative (RRI), which yielded price and/or scope reductions in 465 contracts. This initiative resulted in \$476 million of savings in FY 2009 and an additional projected savings of \$648 million over FY 2010 and FY 2011.

The Postal Service has also renegotiated contracts outside of RRI, but such renegotiations have not been systematically tracked, so the savings resulting from them cannot be readily calculated.

RESPONSE OF UNITED STATES POSTAL SERVICE
WITNESS MASSE TO NPMHU INTERROGATORY

NPMHU/USPS-T2-2

Please explain why, in calculating the growth in mail volume necessary to equal the cost-savings the USPS would allegedly reap from the MNPR, you use the figure \$2.6 billion (USPS-T-2, at 9), instead of using the *net* cost-savings that is identified elsewhere in your testimony as \$2.1 billion (USPS-T-2, at 12).

RESPONSE:

The \$2.1 billion is not net cost savings; rather, it is the net impact on the Postal Service's profit or loss. As a practical matter, the distinction between replacing \$2.1 billion of net benefit or \$2.6 billion of cost savings is beside the point. Growing First-Class Mail revenue by \$2.1 billion would require volume growth of roughly 10 billion pieces, or 13 percent. While this scenario may be slightly less unlikely than the scenario presented in my testimony of growing First-Class Mail volume by 16 percent, it nonetheless remains highly unlikely.

RESPONSE OF UNITED STATES POSTAL SERVICE
WITNESS MASSE TO NPMHU INTERROGATORY

NPMHU/USPS-T2-3

Please provide the calculations you or the USPS made, including any worksheets or supporting documents, in determining that “[t]o create a substitute for the \$2.6 billion in cost savings that will be generated by the service change initiative under review in this docket would require growth equivalent to more than 11 billion pieces of First-Class Mail.” (USPS-T-2, at 9).

RESPONSE:

The calculation is shown below. In order to determine the First-Class Mail volume required to replace \$2.6 billion in cost reductions, one divides \$2.6 billion by the First-Class Mail contribution per piece, as shown in the FY 2011 Cost and Revenue Analysis report. The resulting nearly 12 billion pieces would be a 16 percent growth in First-Class Mail volume, compared to 2011 levels.

Cost Savings (\$ in thousands)	\$ 2,600,000
2011 First-Class Mail contribution per piece	\$ 0.217
First-Class volume (thousands) needed to generate new contribution equivalent to cost savings	11,981,567
2011 First-Class Mail volume (thousands)	73,520,543
growth over 2011 First-Class volume	16.3%

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NPMHU/USPS-T2-4

What increase in mail rates would be required to offset the decline in mail volume discussed on pages 9 to 10 of your testimony?

RESPONSE:

The referenced section of my testimony does not discuss offsetting the entire volume decline that the Postal Service is experiencing. Rather, it discusses replicating only the \$2.6 billion in cost savings that are at issue in the network rationalization initiative through other means. The Postal Service has not calculated the level of price increase that would be necessary to offset the decline in mail volume. As a practical matter, such an exercise would be irrelevant, because price increases in excess of the 12-month average change in the CPI-U are prohibited by the Postal Accountability and Enhancement Act.

RESPONSE OF UNITED STATES POSTAL SERVICE
WITNESS MASSE TO NPMHU INTERROGATORY

NPMHU/USPS-T2-5

Has the Postal Service made any estimates of what effect an increase in mail rates to offset the decrease in mail volume would have on Postal Service market share? If so, what are those estimates?

RESPONSE:

No.

RESPONSE OF UNITED STATES POSTAL SERVICE
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NPMHU/USPS-T2-6

Please confirm that, by subtracting \$0.5 billion instead of \$1.3 billion from USPS' estimated annualized cost-savings of \$2.6 billion (USPS-T-2, at 11-12), you are agreeing with the testimony of witness Whiteman (USPS-T-12) whose research predicted that, as a result of the MNPR, the USPS will process approximately 2.9 billion fewer pieces of mail and will therefore not incur \$841 million in costs associated with handling, processing, and delivering that quantity of mail.

RESPONSE:

I defer to witness Whiteman to calculate the volume, revenue, and contribution losses that are expected to result from the network rationalization initiative.

RESPONSE OF UNITED STATES POSTAL SERVICE
WITNESS MASSE TO NPMHU INTERROGATORY

NPMHU/USPS-T2-7

Please identify the reasons why “additional consolidations may become necessary in the future.” (USPS-T-2, at 11)

RESPONSE:

As explained by witness Rosenberg (USPS-T-3), the modeling that was undertaken to determine the configuration of the mail processing network under the proposed service standards utilized 2010 workload. Accordingly, the proposed realigned network is sized for 2010 mail volumes. Mail volumes decreased in 2011 and are expected to continue to decrease for the foreseeable future. It is therefore possible that excess capacity will necessitate additional consolidations in the future in order to align the size and cost of the network with future mail volumes.

RESPONSE OF UNITED STATES POSTAL SERVICE
WITNESS MASSE TO NPMHU INTERROGATORY

NPMHU/USPS-T2-8

Please state whether the USPS considers “additional consolidations” in the USPS network, in addition to those contemplated in the MNPR, foreseeable and/or likely within the five years.

RESPONSE:

Please see the response to NPMHU/USPS-T2-7 above.

RESPONSE OF UNITED STATES POSTAL SERVICE
WITNESS MASSE TO NPMHU INTERROGATORY

NPMHU/USPS-T2-9

On page 7 of your testimony, you state that since 2006, the Postal Service has eliminated 21% of the 2006 total workhours, while page 6 of your testimony indicates that mail volume has similarly decreased 21% from 2006 to 2011. Please compare anticipated mail volume reductions to planned workhour reductions over the next five years, if the Postal Service moves forward with its proposal, breaking those numbers down by year.

RESPONSE:

Forecast mail volume and target workhour reductions are shown below.

	Actual	Forecast				
	2011	2012	2013	2014	2015	2016
Total Mail Volume (billions)	167.9	158.0	154.4	150.4	147.0	143.5
% Change in Mail Volume		-5.9%	-2.3%	-2.5%	-2.2%	-2.3%
Target Workhours (millions)	1,143.6	1,085.6	959.9	920.4	901.2	885.0
% Change in Workhours		-5.1%	-11.6%	-4.1%	-2.1%	-1.8%